Corporate Top Trends Update

Argentina

Midterm Elections And A New IMF Deal On The Agenda

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What's changed?

Midterm elections on Nov. 14th could make policymaking more difficult. While the road to midterm elections has been bumpy for the official party, we don't expect a radical shift of power because both the party in power and the main opposition look weakened due to the hit the pandemic has had on the economy. Instead, chances for more fragmentation are on the rise, which could make policymaking even more cumbersome. Almost half of the Chamber of Deputies and the Senate Chamber are up for reelection.

The economy is slowly recovering, but the lack of a new deal with the IMF reduces medium-term visibility. On top of a severe economic contraction and job loss, companies are dealing with rampant inflation and a persistently weak peso, because the government has incurred massive monetary stimulus to cope with revenue drops and increased fiscal spending. The scenario has mildly improved this year, but reaching pre-pandemic levels will take at least another year. Also, a new deal with IMF could improve medium-term visibility and reduce depreciation pressures, but achieving this doesn't look realistic before the elections.

How is recovery taking shape?

Oil & gas, power generation, and telecom & cable are stabilizing. Oil & gas companies are strengthening on the back of better prices and demand. Power generators are also recovering, although a medium-term tariff scheme remains uncertain. Although the pandemic didn't severely hurt telecom & cable operations, revenue and EBITDA continue to grow below inflation due to challenges to pass through price increases.

Utilities, real estate, construction, and infrastructure still have very weak business conditions. Utilities continue to suffer from tariff freezes that amid high inflation and currency depreciation are severely hampering cash flow, although volumes are recovering in line with the rest of the economy. While commercial real estate operations such as shopping malls are resuming some normality, hotels and other lodging remain very weak. In addition, office space rentals are also struggling, particularly for subprime segments. Construction and infrastructure activity remain largely subpar due to inherent exposure to government spending.

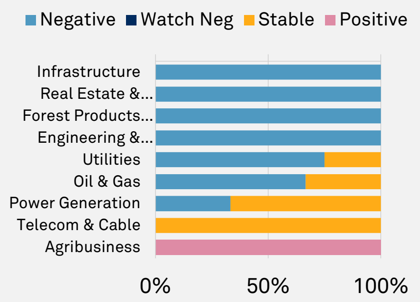
What are the key risks around the baseline?

If Argentina doesn't normalize its foreign obligations, recovery could take longer. In such a scenario, the peso would remain pressured, which usually spikes inflation. Also, market access for companies would remain intermittent, expensive, and highly selective. Those scenarios have historically resulted in sluggish economic performance, currency controls, and high inflation.

Political instability reduces investment and growth. Political polarization and policy swings reduce visibility and undermine investments. Moreover, the lack of a clear economic agenda and milestones add unpredictability. Key sectors of the economy lack clear, sustainable medium-term tariff schemes such as power generation, transportation, and distribution. Additionally, high inflation often triggers export bans aimed at increasing domestic supply, such as the recent ban on meat exports, which didn't much affect domestic prices but eroded trade.

Foreign account vulnerabilities force import restrictions. This makes the domestic production of goods with imported parts difficult and limits growth.

Outlook Distribution



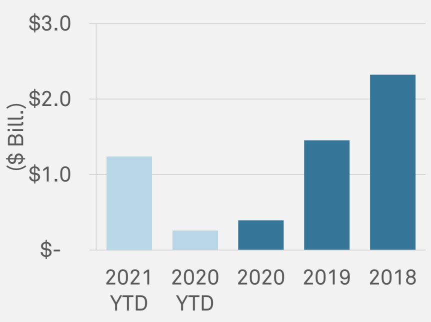
Ratings Statistics (YTD As Of June 2021)

	IG	SG	All
Ratings	0	16	16
Downgrades	0	4	4
Upgrades	0	5	5

COVID-19 Heat Map (EBITDA Versus 2019 baseline)

Argentina	**2020**	**2021**
GDP	(9.9%)	6.9%
Sector	EBITDA	EBITDA
Eng. & Const.	15%-25%	0%-10%
Telecom & Cable	0%-10%	≥2019
PowerGencos	15%-25%	0%-10%
Utilities	>60%	>60%
Real Estate	25%-40%	15%-25%
Oil & Gas E&P	25%-40%	0%-10%
Infr. - Airports	40%-60%	>60%

Issuance Trends As Of June 30 – Rated Corporations



Corporate Top Trends Update

Brazil

Uncertain Political Arena Doesn't Hinder Recovery Prospects

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What's changed?

The economy is recovering most of the ground lost in 2020. The approval of microeconomic reforms in several sectors, benign external conditions, and a large program of concessions should bode well for investment. But despite the 4.7% GDP growth we expect in 2021 (leading to higher tax revenue) and the removal of extraordinary support measures, the fiscal deficit is likely to remain elevated. Meanwhile, the presidential election in October 2022 creates uncertainty about economic and fiscal policies in a highly polarized political landscape. It will be challenging to advance fiscal consolidation and reforms as the election approaches and as risks surrounding the course of the pandemic persist. We expect President Jair Bolsonaro and former President Luiz Inácio Lula da Silva to be competitive.

The domestic market has seen a spike of bond issuances and IPOs. This is good news particularly for midsize entities whose access to international markets is more difficult. This fluid access to capital has lessened companies' exposure to domestic banks, which had been more selective since the onset of the pandemic and allowed for fair amount of debt rollover well ahead of 2022 and the presidential election.

Access to capital and robust balance sheets boosted by favorable commodity prices are fueling M&As. This is illustrated by Raizen's acquisition of Biosev, BRF's two deals in the pet segment, Camil's rice acquisition in Ecuador, and JBS's recent acquisitions of Vivera, Rivaleo, part of Kerry Corp, and Huon--to name a few.

How is recovery taking shape?

Recovery is stronger than in other Latin American countries. Brazilian corporations' credit strength has once again outshined regional peers. Brazilian issuers have seen the most upgrades in the region, particularly in the commodity sector such as protein producers, metals and mining, and chemicals and agribusiness, but other key sectors are performing solidly such as retail, homebuilders, fleet management and rental cars, and building materials.

Commodities led the way. Protein, iron ore, pulp & paper, and sugar & ethanol producers not only weren't hurt by lockdowns, but actually benefited from abnormally high prices, with demand from Asia quickly recovering and from specific industry conditions and government stimulus worldwide.

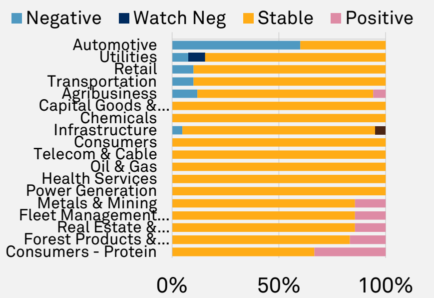
Most of the sectors reached pre-pandemic levels by second quarter 2021. We expect only airlines and some subsectors in transportation to take longer to fully recover from the pandemic. We recently updated our views for the better for some sectors like automotive, retail, and transportation infrastructure.

What are the key risks around the baseline?

The vaccination program is slower than peers. Because less than 30% of population is fully vaccinated, material risks are growing for new pandemic waves that could curb growth potential, especially for those sectors more sensitive to transport restrictions.

Rising interest rates and inflation. The acceleration of inflation and the monetary tightening cycle could hurt the resumption of economic activity. In addition, structural impediments--such as cumbersome tax rules, weak investment expenditure, fiscal rigidities, and trade barriers--are likely to continue to weigh on medium-term growth.

Outlook Distribution



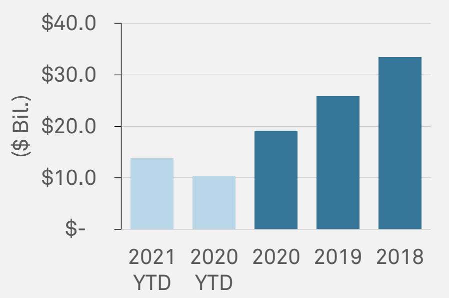
Ratings Statistics (YTD As Of June 2021)

	IG	SG	All
Ratings	9	145	154
Downgrades	0	3	3
Upgrades	0	21	21

COVID-19 Heat Map (EBITDA Versus 2019 Baseline)

Brazil	**2020**	**2021**
GDP	(4.4%)	4.7%
Sector	EBITDA	EBITDA
Metals & Mining.	≥2019	≥2019
Telecom & Cable	0%-10%	≥2019
Power Gencos	0%-10%	≥2019
Utilities	0%-10%	≥2019
R. Estate & homeb.	0%-10%	≥2019
Oil & Gas E&P	20%-30%	≥2019
Transportation	40%-60%	15%-25%
Agribusiness	≥2019	≥2019
Consumer Protein	≥2019	≥2019
Chemicals	≥2019	≥2019
Infr.– Roads/Ports	0%-10%	≥2019
Automotive	0%-10%	≥2019
Cap good & bld mat	≥2019	≥2019
Forest Products	≥2019	≥2019
Retail	0%-10%	≥2019
Fleet Management	0%-10%	≥2019

Issuance Trends (As Of June 30 – Rated Corporations)



Corporate Top Trends Update

Colombia

Domestic Headwinds Continue To Pose Downside Risks

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What's changed?

Colombia's downgrade to speculative grade pushed some corporate ratings down. The country is facing increasing social tensions and the political arena is uncertain ahead of the presidential elections in 2022, which is curbing business conditions.

Outstanding corporate debt reached a five-year high. Since the COVID-19 outbreak, companies have actively taken on new debt to strengthen liquidity and have cut back investment and dividends. But due to the uncertain conditions, recovery is running behind our expectations and leverage profiles have weakened. We predict leverage to remain a key risk for the next 18 months.

How is recovery taking shape?

We expect very few sectors to return to pre-pandemic metrics in 2021. Countercyclical measures in the form of government subsidies into housing and power distribution have supported better-than-expected results in 2021. Also, efforts to accelerate the execution of certain infrastructure projects and public works will continue to feed the demand for building materials, particularly cement. But these sectors are likely to recover to pre-pandemic levels by year-end 2021.

The sharp contraction in demand in the real estate sector and lower volume sales in the paper and packaging sector have resulted in EBITDA declines of up to 50%, in some cases. These sectors are underperforming against regional peers, and we believe that the recovery trajectory will lag behind the curve by at least a couple of years. For airports and leisure, the recovery path will depend on migration policies and vaccination rates. We expect full recovery by 2024, a year later than the recovery across the region.

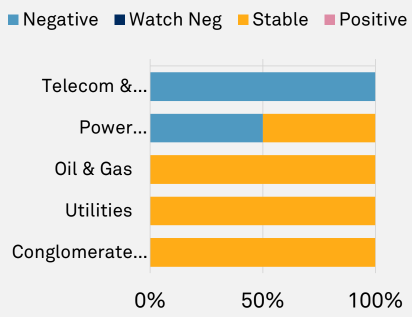
What are the key risks around the baseline?

Slower economic growth. Downside risks to economic growth, including the political uncertainty amid the presidential elections in 2022, temporary spikes in the number of Covid-19 cases that could result in renewed lockdowns, and the normalization of interest rates globally could dent Colombia's economic activity, and therefore delay the recovery trajectory across industries.

Deferral of capital expenditures. Some companies have postponed investment plans in 2021, mostly to protect their liquidity. We consider that this reduction in capex could compromise to some extent top-line growth prospects in the next few years and limit in part the recovery of credit metrics to pre-pandemic levels.

Changes in consumer behavior. As the pandemic accelerates the shift in mobility and consumer behavior, we still expect higher risk exposures for sectors that depend on close human proximity, nonessential consumption, and commercial real estate and office space.

Outlook Distribution



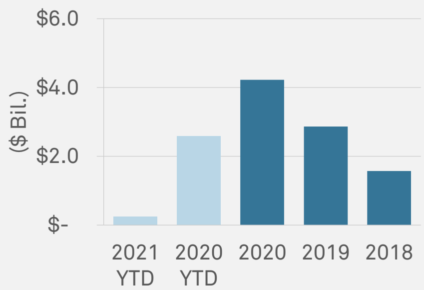
Ratings Statistics (YTD As Of June 2021)

	IG	SG	All
Ratings	1	6	7
Downgrades	4	2	6
Upgrades	1	0	1

COVID-19 Heat Map (EBITDA Versus 2019 Baseline)

Colombia	**2020**	**2021**
GDP	(6.8%)	7.0%
Sector	EBITDA	EBITDA
Conglomerates.	20%-30%	0%-10%
Telecom & Cable	≥2019	≥2019
Power	15%-25%	≥2019
Utilities	0%-10%	≥2019
Oil & Gas	25%-40%	15%-25%

Issuance Trends (As Of June 30 – Rated Corporations)



Corporate Top Trends Update

Chile

Changes In Constitution And Corporate Taxation To Come

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What's changed?

Chile should have a new constitution by mid-2022. After the Oct. 25, 2020, plebiscite, Chile elected 155 designees to make a first draft of the new constitution. Once ready, the draft will be subject to another plebiscite to either approve or reject it. If rejected, the current constitution will remain. Although it isn't clear the extent and nature of the proposed changes, the catalyst of the process was the social protests demanding broader access to education and public health, so a more active role of the state on those fronts could be a natural consequence.

Chile's economy is recovering rapidly thanks to an advanced vaccination program, high copper prices, and government stimulus. Sixty-eight percent of Chile's population is fully vaccinated--the highest among Latin American peers. That should make the country less vulnerable to pandemic setbacks and severe lockdown measures, which means better economic prospects and a more stable economic path. Record high copper prices are also playing a key role in increasing exports and fiscal revenues and triggering private investment. The government is also supporting midsize companies and vulnerable sectors, which helped sustain consumption. Three pension fund withdrawals (two in 2020 and a third one in May 2021) that totaled close to $50 billion (approximately 20% of GDP) have boosted consumption since August 2020, underpinning rapid recovery in areas such as the consumer sector.

How is recovery taking shape?

Most sectors have recovered to pre-pandemic credit metrics. Key sectors such as telecom and cable, power generation/utilities, and consumer have fully recovered - and some weren't even affected, like metals and mining and forest products.

Traffic on toll roads has recovered after a severe setback last year (traffic shrunk almost 60% in the second quarter of 2020 year over year), but we still expect toll roads' EBITDA to remain slightly below pre-pandemic levels in 2021.

Manageable impact on utilities. Power demand has returned to normal and Chilean utilities continue to benefit from large contracted revenues and robust financial flexibility.

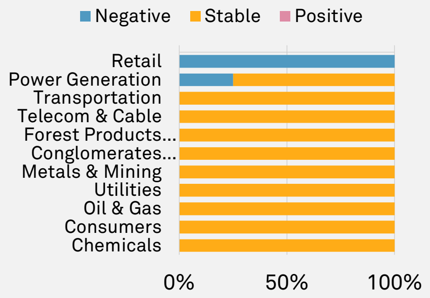
What are the key risks around the baseline?

The new constitution may increase corporate costs. Water use rights could be revoked, triggering the need for new investments (such as desalination plants) or increasing operating costs for corporations. To deal with higher fiscal spending, regular policymaking channels may also change the current tax and royalty schemes.

Mining royalties could rise. In May 2021 the Chilean lower house approved a bill to modify the mining royalties scheme. The proposed modification implies variable charges that could reach up to 75% of copper prices above $8,800 per ton. If approved by the Senate, the new scheme could evaporate excess profits in the current high spot price scenario.

Power tariffs under pressure. Downside pressure is mounting in both spot and contract electricity prices as power supply from renewable sources increases. In the past four years, power supply from renewable sources has risen to above 25% of total supply, and we expect it to reach the country's target of 70% by 2030. In addition, Chile is implementing a plan to phase out coal from its energy matrix by 2040.

Outlook Distribution



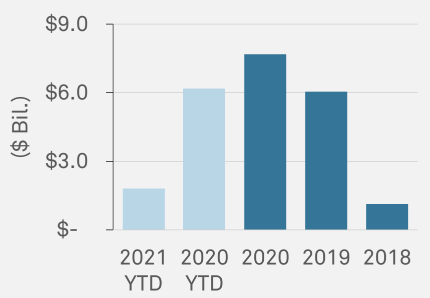
Ratings Statistics (YTD As Of June 2021)

	IG	SG	All
Ratings	21	6	27
Downgrades	0	0	0
Upgrades	4	1	5

COVID-19 Heat Map (EBITDA vs 2019 baseline)

Chile	**2020**	**2021**
GDP	(6.0%)	6.9%
Sector	EBITDA	EBITDA
Retail	15%-25%	0%-10%
Telecom & Cable	0%-10%	≥2019
Power/Utilities	0%-10%	≥2019
Toll Roads	15%-25%	0%-10%
Metals & Mining	≥2019	≥2019
Forest Products	≥2019	≥2019
Oil & Gas Market.	10%-15%	0%-10%
Airlines	>60%	25%-40%

Issuance Trends As Of July 8 – Rated Corporations



Corporate Top Trends Update

Mexico

Corporate Credit Risk Gradually Stabilizing

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What's changed?

Some pillars of the economy are returning to normal. Corporate credit quality is gradually stabilizing, although the proportion of ratings with negative outlooks is at roughly 40%. Vaccination is progressing and helping restore consumer confidence: 23% of the population was fully vaccinated as of mid-August, relatively in line with regional peers. The recovery of the U.S. economy is pulling along export manufacturing activities in Mexico and boosting remittances to new highs, supporting Mexican household income. Soaring commodity prices are also helping commodity producers. Yet, important as these tailwinds have been, Mexican corporations have also pushed forward innovative initiatives to stimulate growth and improve cost control mechanisms.

The Delta variant is resulting in rising COVID-19 cases. As COVID-19 variants continue to develop, over the last couple of weeks Mexico has been hit by a new wave that has pushed the number of cases to record-high levels since the outbreak of the pandemic last year. At this point, we don't expect severe lockdowns across the country, but that could change if the mortality rate worsens.

How is recovery taking shape?

Two-thirds of rated Mexican corporations will return to pre-pandemic levels by 2022. Various sectors are performing better than what we expected a year ago, and we're cautiously optimistic about the recovery path for most industries. Commodity producers are benefiting from record prices including metals, crude oil, and agricultural products. Also, essential consumption remains resilient while businesses continue to adapt to the shift in consumer preferences toward goods and services that improve the stay-at-home experience, including connectivity, entertainment, and comfort. For the export manufacturing sector, the healthy recovery of the U.S. economy is helping restore demand fundamentals and volume sales.

What are the key risks around the baseline?

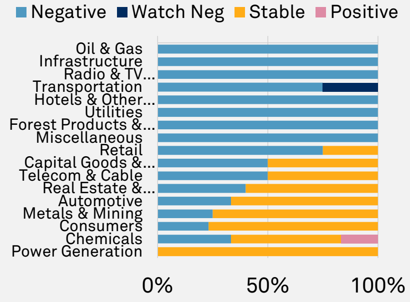
Sovereign risk could drag down credit quality. Our foreign currency sovereign rating on Mexico remains 'BBB/Negative/A-2'. A potential sovereign downgrade would likely trigger several negative rating actions among rated domestic entities that currently have a sovereign rating cap.

Public involvement in key sectors may limit private investment. The government is keeping its two flagship enterprises--PEMEX and CFE--at center stage of the energy sector, which not only is an indication that the participation of private capital in strategic sectors will be limited, but more importantly dents investor confidence.

Inflation and interest rate increases. Inflationary pressures have been escalating recently, and the central bank has taken monetary action by upwardly adjusting its reference rate in the last two months. Despite still low financing costs, a rapid and volatile market repricing or persistently elevated inflation could hamper corporate credit quality at the lower end of the rating spectrum.

Lengthy supply chain bottlenecks. Global supply chain delays are rapidly increasing shipping costs, and creating shortages of raw materials and manufacturing parts and components. This is increasing manufacturing risks that could lead some industries to scale down production volumes. Such disruption could also trigger inventory build-ups that hurt working capital and cash flows, should the supply delays last through the second half of 2021.

Outlook Distribution



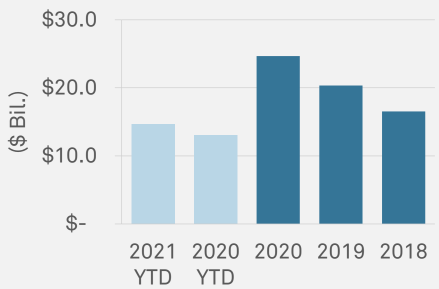
Ratings Statistics (YTD As Of June 2021)

	IG	SG	All
Ratings	32	33	65
Downgrades	0	6	6
Upgrades	1	2	3

COVID-19 Heat Map (EBITDA Versus 2019 Baseline)

Mexico	**2020**	**2021**
GDP	(8.5%)	5.8%
Sector	EBITDA	EBITDA
Metals & Mining.	≥2019	≥2019
Telecom & Cable	0%-10%	≥2019
Infr. – Roads	10%-15%	≥2019
Utilities	15%-25%	0%-10%
Oil & Gas Dst	40%-50%	10%-15%
Transp. -Airlines	>60%	>60%
Chemicals	10%-15%	≥2019
R. Estate & Homeb	15%-25%	0%-10%
Cap goods & Bldg	0%-10%	10%-15%
Retail non-essent.	25%-50%	10%-15%
Infr. - airports	40%-50%	30%-40%

Issuance Trends (As Of June 30 – Rated Corporations)



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